

# Colt Industries Inc.

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## Colt Industries Inc.

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*Public Company*

*Incorporated:* November 11, 1911 as Pennsylvania Coal & Coke Corp.

*Employees:* 19,700

*Sales:* \$1.616 billion

*Market value:* \$405 million

*Stock Index:* New York

Widely known for its firearms, Colt Industries is more than a gun company. With 78 manufacturing plants in 25 states and several foreign countries, Colt is a broadly diversified, billion dollar conglomerate.

It didn't always look like Colt would be around long enough to expand into other businesses. The company was incorporated in 1954 as Penn-Texas Corp., the plaything of Leopold Silberstein. It was among the first of the conglomerates, growing entirely through acquisitions. The company staggered, however, and five years later the company was renamed Fairbanks Whitney Co. to establish a fresh identity for itself.

What is today Colt Industries was born in 1962. That year George A. Strichman left his middle management job at International Telephone & Telegraph Corp. to become president and chairman of Fairbanks Whitney. Shortly after, he described the company as "a case history in catastrophe." It had been through a decade of mismanagement and wheeler-dealing that ended in a flurry of proxy-fights and multi-million dollar losses. A few months later, Strichman recruited David L. Margolis, who had worked with Strichman at ITT, to be financial vice-president and treasurer.

The company's profile desperately needed to be defined. Its operation ranged from Pennsylvania coal mines and firearms to machine tools and a hodgepodge of other industrial products. To help the company make the transition, the company in 1964 adopted the name Colt Industries.

The new management shied away from making long term goals because Colt dealt mostly in cyclical business. But by narrowing its products and markets, the company registered at impressive rate of earnings growth in its first few years. By 1966 the company had achieved its

second year in the black. Sales rose to \$191 million from \$164 million the previous year, and earnings at \$1.64 per share were almost twice that of a year earlier. Most of those profits came from the manufacture of military products for the Vietnam War. And that result didn't include the \$600,000 earned on \$8 million in sales by the newly acquired Quincy Compressor Co.

But for a capital goods and defense company in the midst of booms in both businesses, these earnings were merely moderate. Colt earned less than 3% on sales at a time when well-run competitors were making 8% to 10% and more; even Colt's creditable return on equity of some 13% the previous year was due in large part to the shrunken book value created by heavy writeoffs in 1962. But, Strichman told the media, the company was capable of paying its bills without relying on outside cash.

With the war boosting the company's market, Colt achieved an earnings peak in 1968, which it would not surpass for another eight years. It acquired Crucible Steel, which helped reduce Colt's reliance on military business, but its large industrial group was actually operating at a loss during much of this period. By also buying Holley Carburetor and Central Transformer that year, the company managed to gain significant market shares in such product lines as fluid controls, automotive carburetors, aircraft fuel systems, and some types of water and sewage pumps. Those acquisitions enabled Colt to move forward while reducing its dependence on steel products.

In 1972 earnings appeared to be on an upward trend throughout much of the company's 19 divisions, which were broadly grouped into four categories. The largest unit, Materials, a producer of stainless steel and high alloy steel, accounted for about 42% of Colt's sales and more than 65% of its profits. Demand at Crucible Steel was strong in all markets. Fluid Control Systems brought in 18% of the company's volume and profits. That group was made up of Holley Carburetor, the largest independent manufacturer in its field, and Chandler Evans, which produced aircraft fuel controls, pumps, and valves.

But not all of the Colt's divisions were as healthy. The Industrial and Power Group, comprised of Central Moloney Transformer, Pratt & Whitney Tools, Fairbanks Morse Weighing Systems, and Quincy Compressors, accounted for 31% of Colt's sales that year but racked up a loss of close to \$7 million. And the Firearm Division, which produces M16's, police revolvers, and sporting arms, represented 9% of the company's overall total and 15% of profits.

Colt weathered the 1973-77 recession era, doubling its sales to \$1.5 billion and quadrupling its earnings to \$69.6 million. It had achieved that growth despite often sluggish markets for its specialty steel, machine tools, firearms, and numerous industrial products. Much of the success rested with Strichman, who didn't hesitate to prune products that did not live up to their promise in profits, including large power generators, electric motors, piston engines, pumps, and compressors, among others.

In 1977 Colt came under scrutiny by the Justice Department. A broad-scale grand jury investigation looked into illegal arms and ammunition sales to South Africa by Colt and the Winchester Group of the Olin Corporation. Both companies conceded that they had illegally shipped arms via third parties to South Africa, which was under an arms embargo because of its apartheid policy. The companies fired several employees who were said to have conducted the sales in violation of corporate policy and without knowledge of senior officials.

Colt had adopted a more cautious attitude in recent years. For the five years preceding 1978, it had made no major acquisitions. And Strichman conceded to *Business Week* that he was paying little attention to outside opportunities. As he saw it, either asking prices were too high or built-in problems were too great. "We spent a generation cleaning up our problems. We're not going to pay a premium to buy somebody else's," he told the magazine.

But if Colt was being more conservative about buying new companies, that didn't stop it from playing the market with the companies it had. This prompted *Business Week* to observe that Colt moves "in and out of product lines so often that the company sometimes seems to be run like a floating crap game." That year Colt phased out several models of commercial firearms—the company name derived from its venerable Patent Fire Arms Manufacturing unit. At the same time it was trying to absorb Menasco Manufacturing Co., an aircraft landing gear producer acquired the previous year. By entering industries that cycled at various times, Colt buffered its position against economic downturns. The automotive caburetor business, for instance, is affected by new car sales, but also has a flourishing replacement market to fill the gap when new car sales drop. Sales of Colt's electrical distribution transformers depend largely on the rate of residential and light construction, where market trends do not necessarily coincide with capital spending by such industries as paper, petroleum, and chemicals. The last is Colt's primary customer for alloy tubing and pipe products.

And it was clear that the company's efforts to replace or scrap unprofitable markets or products was beginning to pay off. Fairbanks Morse had established itself as one of the leaders in the highly competitive market of medium-speed diesel engines used by utility and industrial plants. It had attained that position despite competition from at least five other companies, and its dollar volume and backlog were up from one year before. Quincy, an important manufacturer of small air compressors, was competing mainly against Sullair for the bulk of its business. Quincy's orders were also increasing steadily, and its backlog shot up three times from the previous year.

Indeed, Colt's fast-moving strategy was essential if it hoped to cope with the sharp ups and downs that had proven chaotic for many capital goods companies and thwarted their attempt to do long-range planning. Colt wisely chose to enter only industries that rarely cycled together, and by retaining only those companies that come through cycles at higher profit levels than before. And the company was also careful not to expand cyclical operations when they were on the upswing in order to avoid costly excess capacities and inventories on the downswing. This strategy enabled the company to perform successfully, despite a slowing capital goods spending.

Colt doubled its sales over the previous five years to \$1.7 billion, while its net income grew in that period to \$80 million from only \$16.3 million.

Many of the company's divisions were in excellent shape. In 1978 Colt's steel business was doing relatively well, producing \$650 million in sales and operating profits of \$50 million. Sales for the company's industrial and power equipment division exceeded \$500 million, while operating profits reached \$50 million. Fluid control sales rose to more than \$280 million with operating profits over \$40 million, making this the most profitable segment of Colt's business. Even the recently acquired Garlock industrial seal business had \$230 million in sales with operating profits of \$30 million.

As usual, though, not all of Colt's divisions were doing well. Trent Tube, the world's largest producer of welded stainless steel tubing, had an estimated \$125 million in sales and \$14 million profits. Business had been badly hurt by imports and increasing domestic competition. And Colt firearms, the principal manufacturer of the M16, had been experiencing a downtrend in sales and earnings since 1977 when all production for the U.S. government ended. Exports could have made up the difference, but government approval for export was increasingly difficult to obtain.

In 1981 Penn Central's upper management made an unsuccessful bid to buy Colt Industries. Penn, which had just emerged from a large reorganization as a strong, diversified company, offered \$1.4 billion. But a group of Penn's large shareholders owning 22% of the firm's stock balked at the deal, believing it was \$400 million too high. Shareholders critical of the proposed deal mounted a \$1 million campaign to persuade small stockholders, who would have a large combined vote, to veto the projects. Management barely reacted to the opposition. In the final vote, the deal was sunk by a small margin.

In 1982 Colt announced it would close its big Crucible Stainless & Alloy Division, which represented nearly 25% of the company's sales. That move put 4,500 workers at the Midland, Pennsylvania, plant out of work. Colt had been plagued by the specialty steelmaking division's drain on cash. The year earlier Colt completed a \$100 million program to install two new steelmaking furnaces at Midland and to make other improvements. Colt, which made \$109.5 million overall on sales of \$2.2 billion in 1981, said the division was suffering from substantial losses (\$61.8 million) on sales of \$500 million. Wall Street analysts heartily approved of Colt's move to either sell or close down the plant.

With Crucible out of the way, the financial outlook for the rest of the company was improved. The company took advantage of its somewhat stronger financial position to buy back 4.7 million shares at a premium rate of \$24 a share, about 20% over book value.

In 1985 Colt unloaded another unit, this time Fairbanks Morse Pump Division. A Kansas City-based investor group bought all of the company's assets, including the exclusive use of the trade name Fairbanks Morse which dates back to 1880.

Predicting the outlook for Colt, a company that has never liked long-range planning, is difficult. But one former executive told *Business Week*, "Colt figures the opportunities for exceptional growth in the 1980's are limited." Just as closing plant (part of a major division) and selling a division cut off opportunities, stock buybacks have never been a way to make a business grow.

## **Principal Subsidiaries**

Central Moloney Inc.; Colt Industries Operating Corp.; Delavan Inc.; Garlock Inc.; Stemco Inc.; Menasco Inc. The company also lists subsidiaries in the following countries: Canada, France, Panama, Switzerland, United Kingdom, and West Germany.